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March 29, 2007

Arizona Corporation Commission
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Ernest Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Re: *AEPCO's Amended and Restated EPS/REST Plan; Docket No. E-01773A-05-0723*

Dear Mr. Johnson:

On December 22, 2006, as required by Decision No. 68328, AEPCO, on behalf of its Arizona member distribution cooperatives, submitted an Amended EPS/REST Plan (the "December Plan"). However, we also explained that a few days before the filing Sulphur Springs Valley Electric Cooperative ("SSVEC") had notified AEPCO that the SSVEC Board had authorized the filing of its own Renewable Energy Standard Plan. We noted that SSVEC's decision to file its own plan would impact certain aspects of the December Plan and committed to re-evaluate and file appropriate revisions.

In that regard, attached is an Amended and Restated EPS/REST Plan which AEPCO requests be substituted for the December Plan. It is submitted on behalf of Duncan Valley Electric Cooperative, Graham County Electric Cooperative, Mohave Electric Cooperative and Trico Electric Cooperative (the "Cooperatives"). The primary differences between it and the December Plan are (a) the addition of a solar water heating component to the SunWatts Residential and Commercial Rebate Program at Section II(2) and (b) other amendments, primarily to Section V pertaining to Estimated Results/Budget/Tariffs, necessary to account for the fact that SSVEC will no longer be participating in the plan with AEPCO's other Arizona member distribution cooperatives.

The Amended and Restated EPS/REST Plan has been formulated based on the assumption that the REST Rules will take effect. It is designed to meet the REST Rules requirement, in proposed Rule 1814.B, that the Cooperatives file by July 1, 2007 a plan for acquiring Renewable Energy Credits for, in this case, the remainder of 2007 and 2008. Should the REST Rules not take effect, AEPCO and the Cooperatives will prepare a subsequent filing to adjust the Amended and Restated EPS/REST Plan to the requirements of the current EPS Rules.

Should you or any other member of Staff have questions concerning this filing, please contact me or Dennis Criswell at AEPCO. Staff's assistance in relation to this matter is appreciated.

Very truly yours,

GALLAGHER & KENNEDY, P.A.

By:
Michael M. Grant

MMG/plp
10421-38/1535486

Attachment

Original and 13 copies filed with Docket Control this 29th day of March, 2007.

cc (w/attachment): Ernest Johnson, Utilities Division (delivered)
Ray Williamson, Utilities Division (delivered)
Janice Alward, Legal Division (delivered)

AEPCO and Its Member Distribution Cooperatives
Amended and Restated EPS/REST Plan
3/07

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I. BACKGROUND

On February 8, 2001, the Commission entered Decision No. 66364 adopting the Environmental Portfolio Standard ("EPS") Rules as A.A.C. R14-2-1618. Pursuant to subsequent Decisions, the Arizona Electric Power Cooperative, Inc. ("AEPCO"), on behalf of its five Arizona member distribution cooperatives, filed for Staff review and Commission approval an EPS Plan describing the various programs AEPCO would undertake in relation to the EPS Rules. On August 10, 2004, in Decision No. 67176, the Commission approved the EPS Plan as "consistent with the requirements of the EPS Rules for AEPCO and its Arizona Class A member distribution cooperatives."

By Decision No. 68328 dated December 9, 2005, the Commission extended until December 31, 2006 the filing date for an Amended EPS Plan finding that "the AEPCO EPS Plan approved in Decision No. 67176 is consistent with the requirements of the current EPS Rules and, as they may be revised, until the Commission acts on the amended EPS Plan filing and associated requests."

Recently, the Commission passed the Renewable Energy Standard and Tariff Rules ("REST Rules") in Decision No. 69127 dated November 14, 2006. Among other things, the REST Rules require affected utilities serving retail electric load, such as AEPCO's member distribution cooperatives, to derive certain percentages of the total energy they sell at retail from Eligible Renewable Energy Resources. Although the Commission has finalized the REST Rules, they are not yet in effect pending certification by the Attorney General and filing with the Secretary of State's Office.

As the all- or partial-requirements supplier of power and energy to its five Arizona member distribution cooperatives,[1] AEPCO will assist four of its member distribution cooperatives in relation to their obligations under the REST Rules. The four distribution cooperatives covered by this Amended and Restated EPS/REST Plan (the "Plan") are DVEC, GCEC, MEC and Trico (the "Cooperatives"). SSVEC has notified AEPCO recently that it will file its own plan. After the REST Rules take effect, the four member distribution cooperatives covered by this Plan will, *inter alia,* file tariffs to establish a REST surcharge or request a reset of their adjustor mechanisms, if applicable, pursuant to proposed Rule 1808. Upon ACC approval, these distribution cooperatives will collect the surcharge and remit all proceeds, less rebates paid to retail members, to AEPCO on a quarterly basis. AEPCO will use the surcharge proceeds to administer and implement the Plan as described herein.

The REST Rules contain a section that specifically addresses Electric Power Cooperatives. Similar to the procedure which has been followed for several years under the current EPS Rules, proposed Rule 1814.A instructs the Cooperatives to file "an appropriate plan for acquiring Renewable Energy Credits from Eligible Renewable Energy Resources for the next calendar year. Upon Commission approval of this plan, its provisions shall substitute for the requirements of R14-2-1804 and R14-2-1805 for the electric power cooperative proposing the plan."

Because the REST Rules are not yet in effect, the Cooperatives submit this Plan for two purposes: (1) to comply with the requirement of Decision No. 68328 that they file an amended plan by December 31, 2006 in relation to the current EPS Rules and (2) to satisfy the REST

[1] Those distribution cooperatives are Duncan Valley Electric Cooperative, Inc. ("DVEC"); Graham County Electric Cooperative, Inc. ("GCEC"); Mohave Electric Cooperative, Inc. ("MEC"); Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC"); and Trico Electric Cooperative, Inc. ("Trico").

Rules requirement, in proposed Rule 1814.B, that they file by July 1, 2007 a plan for acquiring Renewable Energy Credits from Eligible Renewable Energy Resources for the next calendar year or, in this case, 2008.

The Cooperatives note that they have formulated this Plan based on the assumption that the REST Rules, including their provision for higher surcharge amounts, will take effect. Should, however, the REST Rules not be certified, the Cooperatives will make a subsequent filing with the Commission to adjust this Plan to the requirements of the current EPS Rules and the proceeds of the current surcharge.

II. COOPERATIVES EPS/REST PLAN

The Cooperatives will use surcharge dollars, any proceeds from consumer participation in the Green Energy Purchase Program and other potential sources to fund their renewable programs. Primarily, these programs include both residential and commercial photovoltaic, solar water heating and wind project distributed generation rebates, large-scale renewable energy purchase power contracts and large-scale renewable installations, including participation in large, multi-utility joint projects. Surcharge and other funds will also be used to pay for the administration, advertising and promotion of these programs, as well as educational activities.

There are four primary parts to the Cooperatives' REST Plan, which is called SunWatts:

(1) The SunWatts Green Energy Purchase Program;

(2) The SunWatts Residential and Commercial Rebate Program;

(3) The SunWatts Large-Scale Purchase Power Contract Program; and

(4) The SunWatts Large-Scale Generating Program.

Each of these programs is discussed in detail below.

(1) SunWatts Green Energy Purchase Program: The Cooperatives intend to offer their retail customers a voluntary program whereby customers can support the purchase of blocks of "green energy." These are 50 kWh blocks and will cost $2.00 each. Customers can choose to purchase several blocks and the purchase will be reflected in a line item on their retail bill. All funds received in relation to this program will be added to amounts received from surcharges and used for renewable projects.

Currently, the Cooperatives offer their customers a Voluntary Contribution Program under Commission-approved tariffs. Under the current program, customers could elect to contribute additional dollars on their bills to be used for renewable projects. However, the contribution has not been tied to any actual green output. The program has not been successful and the Cooperatives hope that the Green Energy Purchase Program—supporting, for example, blocks of power acquired under the Purchase Power Contract or Large-Scale Generating Programs—will offer a more tangible product and greater perceived benefit to customers.

Over the next five years, the Cooperatives anticipate they will add 100 participants each year with an average participation of $2.00 per month. Increased advertising and promotion activities will support this program. Assuming Commission approval, the Cooperatives will withdraw current voluntary tariffs and file a revised tariff in relation to the voluntary Green Energy Purchase Program.

(2) SunWatts Residential and Commercial Rebate Program: The SunWatts rebate program pays customers rebates for the installation of qualifying photovoltaic ("PV"), solar water heating and small wind installations. For both PV and small wind systems, the Cooperatives will pay $4 per installed watt, up to 50 percent of the total cost of the system. For PV and small wind systems, in general, this equates to 2,000 watts or $8,000 for residential installations or 5,000 watts or $20,000 for commercial systems, although the precise wattage size of the installation and rebate support may be adjusted. This program will also be used in support of the Customer Self-Directed Renewable Energy Option as described in proposed Rule 1809.

For solar water heating, the cooperatives will pay a rebate equal to $0.50 per kWh of energy saved the first year of operations, based on the OG-300 ratings of the Solar Rating and Certification Corporation. Only OG-300 certified solar systems are eligible for the SunWatts rebate. A list of OG-300 certified Solar Systems is available at the Solar Rating and Certification Corporations' website at www.solar-rating.org. Solar swimming pool heating systems are not eligible for the SunWatts rebate.

Payment will be made following inspection and approval of the installed unit prior to energization. Customers have the option of hiring an electrician to certify the installation or having the distribution cooperative perform the inspection. Should the customer opt to have the cooperative perform the inspection, he/she will pay a trip charge to the cooperative.

One-half of the surcharge funds collected each year will be set aside to support this distributed generation rebate program. Of the funds earmarked for distributed renewable generation, at least half will be set aside for residential distributed projects. Any allocated funds not used in a particular year will roll over to the following year and may be used in subsequent years to support any program.

In the past year, the pace of rebate-supported distributed generation installations has slowed considerably from the Cooperatives' initial success in 2004-2005. For this reason, in 2007, the Cooperatives are hopeful they can support up to 50 distributed installations with a total installed capacity of 50 kW at a total cost of $200,000 and would expect to add up to 50 such installations annually over the next five years.

(3) The SunWatts Large-Scale Purchase Power Contract Program: Under this program, the Cooperatives will purchase a significant amount of renewable energy from third-party producers. The Cooperatives will secure such contracts pursuant to a competitive bid process which was conducted last year. Depending on the success of this program, the Cooperatives may extend or enlarge its scope and anticipate this program will be a significant part of SunWatts in the near term.

Currently, the Cooperatives are negotiating with an out-of-state supplier to provide approximately 24 million kWh of renewable energy annually over the next five years beginning in 2007. The "above market cost" of this energy is expected to be 3.5 to 4.5 cents per kWh for an annual cost of $840,000 to $1,080,000.

(4) The SunWatts Large-Scale Generating Program: The large-scale program calls for the Cooperatives, as a group or in partnership with others, to install and operate utility-sized renewable generating units. The Cooperatives will attempt to develop one such program each year and, in order to increase the size of the project or the efficiency of the expenditure, seek partners wherever possible that can contribute funding, in-kind facilities, services or expertise. The Cooperatives may also own and operate these large-scale projects or enter into long-term purchase power agreements.

Currently, the Cooperatives are exploring several potential large-scale projects:

Solar Cooling Project: AEPCO has partnered with the Cooperative Research Network ("CRN") on a research project to identify and evaluate renewable options for increasing peak generation capacity. Its first phase was a research project to evaluate the feasibility and cost effectiveness of solar cooling of inlet air for combustion turbines. The Cooperatives provided the results of the study to the ACC staff in April 2006.

Should this technology prove feasible and cost effective, solar cooling equipment would be installed on Gas Turbine #4 at the Apache Generating Station and would create a green output of five to 12 MW. Financing for this project could also include loan funds from the RUS renewable loan program or possibly proceeds from Clean Renewable Energy Bonds, which were passed as part of the Energy Policy Act of 2005.

Concentrated Solar Generation: AEPCO has joined the Joint Development Group, which is made up of generation utilities in California, Nevada, Arizona and New Mexico. This group is investigating the development of a large scale (250 MW) Concentrated Solar Generation Project. AEPCO is exploring the potential of some ownership or, more likely, a purchased power agreement in a range between 2.5 to 10 MW for 20 to 30 years. This project, if built, is anticipated to come on line in 2009 or 2010.

Solar Plant – Tucson: AEPCO has begun preliminary discussions with the City of Tucson and Tucson Electric Power Company regarding the potential of building a jointly-owned solar generating plant on land owned by the City of Tucson in the Avra Valley area northwest of Tucson. This project may be either photovoltaic or solar thermal and could range in size from one MW (PV) to 100 MW (Solar Thermal). If this project moves forward, it could be ready for commercial operation between 2008 and 2010.

Biomass/Biogas Project: AEPCO has been contacted by two independent developers who have suggested the development of biomass and/or biogas projects at two sites in Cochise County. The first is a project to heat commercial greenhouses using plant wastes and chipped pallets in place of natural gas. The Cooperatives would buy Renewable Energy Credits created by this process. The second proposal calls for the development of a biogas generator that uses animal wastes from a large dairy. Both projects are in the initial phases of discussion and would not be operational until 2008 or 2009 at the earliest.

III. MISCELLANEOUS ISSUES

Habitat for Humanity Program: The Cooperatives will continue their partnership with the Habitat for Humanity Program to offer renewable energy options to low-income families in cooperative service territories. The Cooperatives will contribute dollars to the Habitat organization for the purchase of photovoltaic and other renewable energy equipment to be installed on Habitat homes and will also assist in finding local renewable energy equipment dealers who are willing to donate products and services. The type and amount of equipment will vary from project to project. Up to five of these projects will be undertaken each year at a cost not to exceed $30,000.

AEPCO Headquarters PV Installation: AEPCO is in the process of completing a large PV installation to provide part of the power requirements at its headquarters facility in Benson, Arizona. The 25 kW facility is the first cooperatively-owned renewable energy generating facility and is expected to generate approximately 50,000 kWh of renewable electricity annually. While the $311,000 project was approved in the summer of 2006, the high demand for photovoltaic panels has pushed the installation of the project to 2007.

IV. ADMINISTRATION OF THE SUNWATTS PROGRAM

Annual Reporting

On April 15, 2007, AEPCO will file a report that describes results under the current approved EPS Plan. Assuming the REST Rules take effect and this Plan is approved, compliance reports will be filed in relation to this Plan and subsequent plans beginning April 1, 2008 and every April 1st thereafter.

Beginning July 1, 2008, and every July 1st thereafter, AEPCO, on behalf of its member cooperatives, will file an updated plan as required by proposed Rule 1814.B.

Advertising, Promotion and Education

The Cooperatives will jointly develop and execute a plan for advertising and promoting the various SunWatts programs available to residential and business customers, including the rebate program and the green power purchase program. AEPCO, with input from the member cooperatives, will develop and place this advertising as well as evaluate its effectiveness. Advertising will include a variety of mediums including, but not limited to: bill inserts and ads/stories in monthly newsletters; counter cards and posters; paid ads in local newspapers and rural radio stations; participation at local events, such as cooperative annual meetings and county fairs; and presence on the websites of each member cooperative. Some of this advertising will be placed directly and paid for by the local distribution cooperative.

The Cooperatives are also exploring the possibility of the joint marketing of renewable programs with Arizona Public Service, Tucson Electric Power and the Salt River Project. Initially, this group is planning to conduct a statewide consumer survey.

In a separate project, the Cooperatives have joined with APS, SRP, TEP and Navopache Electric Cooperative in the Arizona Utility Renewable Energy Education ("AZURE") project. AZURE is jointly developing renewable energy education materials for teachers and educators across Arizona. The group's website is already up and running—www.azureeducation.com—and the group is working with the National Renewable Energy Laboratory to bring the NREL wagon, an interactive vehicle that shows renewable energy at work, on a tour of Arizona schools sometime in 2007.

Finally, the Cooperatives are offering teachers in their service territories education grants for the development of renewable projects for the classroom. The Cooperatives plan to grant one teacher in each co-op service territory school district $1,000 annually for this purpose, up to a maximum of $25,000.

In order to ensure that their members receive maximum value from the SunWatts programs, the Cooperatives will not use more than 15 percent of total surcharge funds for administrative, research and development and advertising expenses. At the end of each year, unused funds, if any, will be carried over to fund activities and programs in the following year.

V. ESTIMATED RESULTS/BUDGET/TARIFFS

Based on programs and projects in place, as well as the assumptions stated in this Plan, for 2007, the Cooperatives anticipate a full year's operation of this Plan would generate 24,300 MWh of renewable energy. That amount of energy would equal 1.2 percent of the total retail energy expected to be sold by the Cooperatives in 2007. However, both the amount of renewable energy produced and the percentage of retail energy served by renewable energy will be impacted based upon surcharge proceed levels/amounts received, the amount of time necessary to receive approval for the Plan and to negotiate the renewable energy purchase contract.

Anticipated REST Surcharge and Proposed Cooperative Budget

	2007*	2008	2009	2010	2011
Estimate of Funds Collected	$ 2,562,120	$ 2,636,436	$ 2,715,832	$ 2,787,060	$ 2,881,100
Renewable Energy Purchases	(960,000)	(960,000)	(960,000)	(960,000)	(960,000)
Rebate Program					
PV	(132,000)	(132,000)	(132,000)	(132,000)	(132,000)
Wind	(26,000)	(26,000)	(26,000)	(26,000)	(26,000)
Solar Water Heating	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Large Scale Projects	(-)	(1,320,000)	(1,320,000)	(1,320,000)	(1,320,000)
R&D Including Educational Grants	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
Advertising	(128,100)	(131,821)	(135,779)	(139,853)	(144,054)
Administration	(128,100)	(131,821)	(135,779)	(139,853)	(144,054)

**Assumes a full year of operations at higher surcharge levels. Actual amounts will be dependent upon when the Plan is approved.*

Tariffs

Each member distribution cooperative will file individually a REST surcharge tariff (or reset of its adjustor clause, if applicable), a Customer Self-Directed tariff and a Green Energy Purchase Program tariff, assuming the REST Rules take effect and this Plan is approved.

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